

Mr. P. W. Wright,
The Shawinigan Water & Power Co.,
107 Craig Street West,
Montreal, Quebec.

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OF BRITISH COLUMBIA

JULY - AUGUST - 1945

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at 25 cents each.

EDITORIAL

Provincial Corporation Income Tax

The writer of this article has no quarrel with the right of the Provinces to share in the revenue acquired through Corporation Income Tax, but is opposed to the method of collection prior to 1941. Provincial Governments insisting on maintaining controls of certain functions selfish, provincial (and there's more than one meaning of the word provincial) and outmoded as they may be, nevertheless must have the necessary income to meet expenditures. Even before VE Day the storm signals had been hoisted, and so far ignored by the officers and crews of the ships in the great fleet called Industry. The course we are now steering will take us soon after V-J Day back into the narrow twisted channel of Provincial Taxation, from which we emerged in 1941; and then only by the financial requirements of a war.

It is not a bad idea to look backward occasionally, if we would profit by the mistakes of the past, so let us review briefly without going into detail the 1940 Provincial Corporation Income Tax situation prior to 1941.

The Provinces of Manitoba and Prince Edward Island had to a degree consolidated their Income Tax with the Dominion. Both Provinces allowed the proportionate Dominion Income Tax as a deduction from the Net Income allocated to each respective Province, but required separate Returns. A stepped-up tax rate was used in each Province, but on a different basis, also Prince Edward Island had a \$750.00 Statutory Exemption.

The Provinces of Quebec and Saskatchewan had a straight 5% tax rate on the allocated Net Income, no statutory exemption and no allowance for Dominion Income Tax.

The Province of Ontario also had a straight 5% tax rate on the allocated Net Income, no statutory exemption and no allowance for Dominion Income Tax, but allowed as a deduction to Companies with Head Office in Ontario, the income tax paid in other provinces to the extent of the Ontario Income Tax Rates, or, whichever were the lesser. This was arrived at by a mathematical monstrosity of which the least said the better and which included the profits on Export Sales to Foreign Countries.

The Province of Alberta had a stepped-up tax rate on allocated net income up to \$10,000.00 and above \$10,000.00 a straight 7% on all net income, no statutory exemption or allowances for Dominion Income Tax. The Province of British Columbia had a stepped-up tax rate on allocated Net Income up to \$19,000.00 and above \$19,000.00 a straight 10% on all Net Income, no statutory exemption or allowance was made for Dominion Income Tax.

The Provinces of New Brunswick and Nova Scotia had a straight 2½% tax rate on the allocated Net Income, no statutory exemption or allowance for Dominion Income Tax was made.

EDITORIAL

This briefly outlines the unhappy state we are again rapidly approaching. We have made no attempt to cover the different interpretations or misinterpretations which occurred, sometimes very costly and long drawn out, due to the geographical locations of our provinces, nor have we gone into the complexities of the Provincial Tax on Capital.

Do we want this condition again? The answer is a positive "NO". Then what are we going to do about it? The Unemployment Insurance Commission were not adverse to having representation from industry help them chart the application of Unemployment Insurance, therefore, we believe that Industry must ask, yes demand, representation on the Dominion Provincial Relations Board, which will handle Income Tax matters and that these representatives of Industry (preferably Companies having Dominion wide sales) should insist on one Income Tax Return, regardless of how the tax is allocated between the Dominion and the Provinces.

The logical place for filing these Income Tax Returns are with the Dominion Income Tax Department, which has now had 28 years of experience.

Now is the time for the post war planning of economical government, also for Industry to eliminate, if possible, unnecessary government returns, which, if added to those already saddled on us in the past six years will make the load more than Industry can be expected to accept.

Dollars — and Sense

The Society has been extremely fortunate in the past in having generous and genuinely interested members to support it through the twenty-four years of its existence, and our relatively healthy financial position to-day is due very largely to their support and to the wise administration policy of the directors so carefully chosen throughout the years to guide its affairs. It is most essential that we continue to pay our way out of current income in spite of increased costs in all branches of our activities. Members can help a great deal by paying their subscriptions promptly; remember that your subscription is the only source of income of the Society and its affiliates; outstanding accounts can interfere with the services the Society endeavours to render to all members.

Quite apart from this purely literal interpretation of our monetary title, it is of course very true that the assistance given by members, not in money, but in interest, co-operation, advice, research, dissemination of knowledge and pride of craftsmanship, is also dollars and sense to the Society, and is constantly being banked to our credit throughout the Dominion of Canada. This type of fund is even more valuable to us than the monetary balances we hold; all members should do everything within their power to increase this invisible bank deposit. We need not carry the analogy much further except to say that, like a bank balance, this fund is available to assist all other members, and the more we pay in of genuine service and loyalty and active interest to the Canadian Society of Cost Accountants and Industrial Engineers and its affiliates, the greater benefits we will all collect as dividends in 1945 and the years to come.

Training of Discharged Servicemen in Accounting

There are a large number of men, discharged from the services, who have expressed their desire to train themselves in the field of industrial and cost accounting. Since they are inexperienced, and five or six years older than when leaving school, they find it very difficult to secure employment in a junior position, as a step in securing their training. This is largely due to the fact that employers know they cannot pay them a salary which is deemed necessary to their subsistence.

The Department of Veterans Affairs has provided that if an employer will make such positions available, at a salary which they would normally pay for that position, to discharged servicemen who are willing to study the course in accounting, they will supplement the salary in accordance with the regulations. This fact is not generally known, and at our request, a brief article was written by Mr. V. N. Bruce, Assistant Superintendent of Vocational Training, explaining arrangements which will be made by the department. This article appears in this issue.

It is the desire of our organization to co-operate with the Department of Veterans Affairs in their very important task of rehabilitating men who have given so much time in the service of their country. We suggest that any members who have a need for men in junior positions, contact the secretary's office, or the nearest office of the Department of Veterans Affairs. It should be made definitely clear that it is not a matter of rendering a favour either to the Department or to the individual, rather, it should be considered in the light that employers will now have the unusual opportunity of obtaining men who, whatever they may lack in the way of civilian experience and training, have something else which may, in the long run, turn out to be even from the limited point of view of an employer, much more valuable.

Our Annual Meeting

The annual meeting of the Canadian Society held at Kitchener in June was most successful in many ways, although deeply saddened by the passing of our President, Mr. E. J. Loiselle, L.C.M.I. Immediately after the general meeting was opened, Mr. P. W. Wright addressed the members in a formal tribute of respect to Mr. Loiselle, and spoke in fitting words of his loyal service to the Society and the high regard in which he was held by the members, and his many associates. Owing to the untimely passing of Mr. Loiselle, the responsibility for directing the meetings rested upon our first vice-president, Mr. Walter H. Furneaux, who assumed his task with confidence, and conducted the business in a most exemplary manner.

All sessions were very well attended, and it was interesting to note that all but three chapters in the Canadian Society were represented. It was indeed a pleasure to welcome Alvin Tupper from Edmonton, and Bill

NEW MEMBERS

Strachan from Fort William. All the chapters in Ontario, and the Montreal Chapter were very well represented.

It may be said, that in the light of business transacted, a great deal was accomplished. As in previous annual meetings, matters which came up for consideration met with considerable differences of opinion, but in all cases, resolutions were passed in full agreement. It is as a result of such open discussion on vital matters, that any organization depends for success.

The success of the annual meeting was largely the result of the excellent arrangements made by the Kitchener Chapter which acted as hosts to the visitors. The manner in which every detail was taken care of attested to the minute planning for the meeting, and the care with which provision was made for the comfort and convenience of the visitors. An excellent program had been arranged for the visiting ladies who were most appreciative of the attention given to them. The executive and members of the Kitchener Chapter are to be congratulated for the success of their efforts.

The Hamilton Chapter has extended an invitation to hold the next annual meeting at Niagara Falls where they will act as hosts in co-operation with the Niagara Chapter. This will be the 25th anniversary of the Canadian Society, and it is expected that the meeting in Niagara Falls will be the most outstanding in the history of the Society. Needless to say, the directors have accepted the invitation of the Hamilton Chapter.

New Members

Calgary:

Norman Christie, McColl Frontenac Oil Co. Ltd.
Kenneth A. Stephens, McColl Frontenac Oil Co. Ltd.
Douglas S. Brooker, McColl Frontenac Oil Co. Ltd.
Louis Tavener, McColl Frontenac Oil Co. Ltd.
Sgt. C. R. Brown, On Active Service.
L. W. Bessell, Calgary School Board.
Major T. O. Megas, On Active Service.

Hamilton:

A. L. Wild, The Steel Co. of Canada Ltd.

Niagara:

A. L. Hunter, Thompson Products Ltd., St. Catharines.
R. A. Brookson, Thompson Products Ltd., St. Catharines.

Toronto:

M. B. Simpson, 184 Rosemount Avenue.
W. A. Irwin, 120 Geoffrey Street.
Morris Babbin, Canadian National Telegraphs.



Professor R. R. Thompson

M.C., V.D., A.C.A., C.A., L.C.M.I.

The President and Board of Directors of the Canadian Society of Cost Accountants and Industrial Engineers regret to announce the death of Professor R. R. Thompson, of McGill University, and a Past President of the Society, at Montreal, on July 10th.

Our Society has lost a valued member; Canada and the British Empire have lost one whose life was expended in their service. It can truly be said of Colonel Thompson that he lived for his fellow men. He would be the last to regret that his life had been shortened because of such service.

In spite of his gifts, his degrees, his memberships and offices in many societies, and his various awards, and though widely known as an author, poet and speaker, Professor Thompson remained a modest and kindly man. Those of us who have been privileged to hear him speak will remember the quiet humour and imagination that swung his audience through his subject—but ever leaving the impression that the listeners were more important to him than the speaker. Those of us who enjoyed the hospitality of his home know the true meaning of the word.

His entire life was such that he would not have us write a lengthy eulogy about his accomplishments. As a soldier, he wrote and lectured on military affairs; as a university professor, he wrote and lectured on business

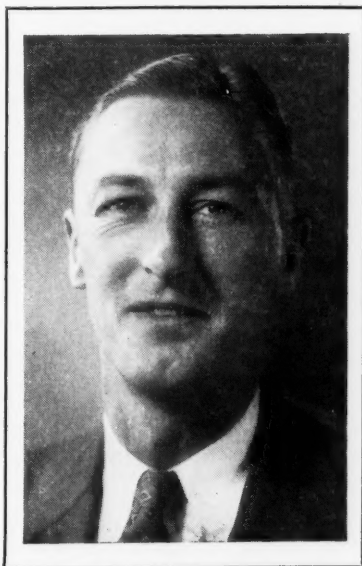
W. H. FURNEAUX, R.I.A.

administration subjects—many prominent business executives having sat in his classroom; he wrote and spoke on many other subjects. The true spirit of Professor Thompson is revealed in his "Night Fall: Luxor", which ends:

*"E'en now, with flesh-veiled sight,
We thrill responsive to our Father's Mind
Who wrought the sunset's glow, and we shall find
Undreamed-of glories, when we grow as He
Would have us grow, in endless harmony—"
Thoughts came too fast for words; but I had said
Enough, and, through the darkness with my head
Erect, passed on my way.*

Our country has indeed lost a soldier, a poet, a gentleman, and a scholar; we have lost a friend.

To Mrs. Thompson and his family the Dominion Society, Provincial Affiliates, and all Chapters express their heartfelt sympathy in their sad bereavement.



W. H. Furneaux, R.I.A.

President, Canadian Society of Cost Accountants and Industrial Engineers

Walter H. Furneaux, R.I.A., of Hamilton, Ontario, was elected President of the Canadian Society of Cost Accountants and Industrial Engineers at its annual meeting held in June. Mr. Furneaux was born and educated in

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Hamilton, and has been a member of the Society since 1926. Since that time, he has been very active in its affairs. In 1936, he was elected chairman of the Hamilton Chapter, after which he became a director of the Canadian Society. Since becoming a director, his driving energy has brought to him rapid progress through various executive offices to that of President.

Mr. Furneaux entered the employ of Aerovox Canada Limited in 1930 as cost accountant, and the same initiative and energy took him from that position to General Manager in 1936, and this year he was made Vice-President.

We may look forward to the coming year with confidence and enthusiasm under his leadership.

Officers Elected at Annual Meeting

The following officers of the Canadian Society of Cost Accountants and Industrial Engineers were elected at the annual meeting:

President—

W. H. Furneaux, R.I.A., Hamilton.

Vice-Presidents—

R. S. Ausman, R.I.A., Toronto.

J. A. Tupper, R.I.A., Edmonton.

J. G. Tennant, R.I.A., Windsor.

Honorary-Secretary—

Charles P. Dumas, L.C.M.I., Montreal.

Honorary-Treasurer—

Norman Terry, R.I.A., Vancouver.

Co-ordinating Educational Committee—

P. W. Wright, L.C.M.I., Montreal.

H. P. Wright, R.I.A., Hamilton.

D. R. Patton, L.C.M.I., Montreal.

A. G. Howey, R.I.A., Hamilton.

A. J. Dolbec, L.C.M.I., Quebec, P.Q.

To be added, a representative from Alberta, and one from British Columbia.

Publication Committee—

J. B. Tennant, R.I.A., Windsor.

A. V. Madge, L.C.M.I., Montreal.

A. G. Howey, R.I.A., Hamilton.

Budget and Finance Committee—

R. S. Ausman, R.I.A., Toronto.

C. P. Dumas, L.C.M.I., Montreal.

Norman Terry, R.I.A., Vancouver.

Secretary-Manager—

J. N. Allan, R.I.A., Hamilton.

OFFICERS — PROVINCIAL SOCIETIES

Directors

B. B. Puddy, C.A., Bay of Quinte.
J. B. Whelihan, R.I.A., Edmonton.
J. A. Tupper, R.I.A., Edmonton.
E. G. Charnock, R.I.A., Fort William-Port Arthur.
W. L. McMahon, R.I.A., Hamilton.
J. W. Hammond, R.I.A., Hamilton.
K. M. Horton, R.I.A., Hamilton.
R. J. Menary, R.I.A., Hamilton.
W. H. Furneaux, R.I.A., Hamilton.
H. P. Wright, R.I.A., Hamilton.
A. G. Howey, R.I.A., Hamilton.
D. G. Seebach, R.I.A., Kitchener.
G. R. Good, R.I.A., Kitchener.
C. E. Costain, R.I.A., London.
C. I. Little, R.I.A., Niagara.
F. E. Wood, R.I.A., Ottawa.
A. J. Dolbec, C.P.A., L.C.M.I., Quebec.
P. L. Duchaine, C.G.A., L.C.M.I., Quebec.
R. Query, L.C.M.I., Quebec.
M. H. Bacon, L.C.M.I., Montreal.
J. J. F. Bancroft, L.C.M.I., Montreal.
H. W. Blunt, C.A., L.C.M.I., Montreal.
P. Kellogg, L.C.M.I., Montreal.
A. V. Madge, L.C.M.I., Montreal.
J. B. A. Merineau, C.P.A., L.C.M.I., Montreal.
J. P. Rolland, L.C.M.I., Montreal.
N. S. Verity, C.A., L.C.M.I., Montreal.
D. R. Patton, C.A., L.C.M.I., Montreal.
P. W. Wright, L.C.M.I., Montreal.
R. S. M. Ausman, R.I.A., Toronto.
L. J. Brooks, R.I.A., Toronto.
D. W. Ewles, R.I.A., Toronto.
R. S. Kellow, R.I.A., Toronto.
H. M. Hetherington, R.I.A., Toronto.
G. Appleton, R.I.A., Toronto.
K. A. Knapp, F.C.A., R.I.A., Toronto.

The Role of Psychology in Industry

By T. A. Jackson, Ph.D., of the Firm of Stevenson & Kellogg Limited

An Address Before the Ottawa Chapter

Broadly speaking the role of psychology in industry is to improve human relations. Most top managements would like to handle the job of making the improvement by setting up a special office with an officer in charge. They would like it to be merely an addition to the present organization and have it operate independently of the present staff. It is perfectly clear that an improvement programme cannot be brought about in that manner, but it must spread throughout an organization from president to foreman and to worker.

A change of philosophy is needed for all of industry. The attitude of the past has been that a supervisor gets his work done by use of his "authority over" his subordinates. Thus he gives orders, metes out punishments and bestows rewards, according to his own individual way of thinking. There is in each of us a certain "craving for power" which finds expression and satisfaction in our having authority over others. The attitude of the future, from the point of view of the supervisor, whether he be president or sub-foreman, must be an attitude of "working with" subordinates. Decisions will not be made merely on a basis of the thinking of the individual supervisor, but in conjunction with that of the subordinates themselves. What they think and how they feel about their work is of first importance if an atmosphere of harmony is to be obtained in a plant.

In the past management has been primarily interested in production, and production only. In the future management must be interested not only in production but in the development of its men.

The work of the modern industrial psychologist is to devise ways and means of securing better human relations between supervisors and their subordinates. Success in this effort will be reflected in a reduction in the tension between management and labour. Insofar as this programme succeeds, we shall witness fewer and fewer instances of technical disputes over the "rights" of labour and the "rights" of management.

More and more industrial leaders are becoming aware of the social responsibility of the employers. They recognize the "human needs" of labour, particularly the need of the employee to feel secure in the industrial framework. They also see clearly that labour must be accepted as a partner in a joint enterprise, and that they must embrace rather than abhor collective bargaining, employee representation and union-management co-operation.

As industry has grown in size the amount of personal face to face relationship between labourers and management has been reduced. With this reduction in personal contact employees feel more and more insecure. It is in the larger industries that there is the greatest lack of harmony and the greatest union activity. It is obviously impossible to reduce large industries to small operations, consequently it is up to modern managers to find ways and means of satisfying the workers' human needs. It is in the latter connection that the psychologist may make a contribution to industry.

WHO OWNS THE TOOLS?

What can a psychologist offer at present toward improving human relations? There are two programmes that he may help management put into effect. First is improvement of the selection and placement of hourly rate employees and also the improvement in the selection of supervisors. The latter may be even more important than the former. The second contribution lies in training and adjusting both employees and supervisors in their work. In the past greater emphasis was placed upon selection. In the future, without diminishing the time and attention to selection, a greater and greater amount of emphasis needs to be placed upon the training and adjusting individuals to their work, whereas previously it was felt that an individual was either suited or not suited to his job. However, each individual approaching a new job represents a wide range of potentialities. The fit will be determined not entirely by his abilities but by the way he is handled on the job.

The modern instruments the psychologist uses in selection are the interview and aptitude tests. Both must be carried out by carefully trained personnel.

Training and adjusting employees and supervisors to their work is a relatively new emphasis. It is of very great importance with respect to the supervisor. If the supervisor is not well suited to the task of supervision his mal-adjustment in that respect will be the source of dis-harmony which will irradiate far beyond his own department.

Who Owns the Tools?

A question recently submitted to one of the chapters brought forth a very lively discussion, the conclusions to which were not entirely reconciled. We have been asked to publish this question to secure a wider range of opinion, and members are asked to submit their views.

Question

In a manufacturing company, when an order is received for an article which is not a regular product of that company, it becomes necessary to first "Tool up" to produce that article. The cost of such tools is usually charged to a separate job cost and billed out to the customer as a lump sum entirely apart from the unit price of the article itself. In such cases, the customer then becomes the owner of such tools, having paid for them outright. However, in other cases the cost of the special tools is absorbed into the price of the product and in these cases who is the owner of the tools at the completion of the contract? It is true that the customer has indirectly paid for them by paying a higher price for the product but by the same line of reasoning they would also own a share in all the plant and equipment since depreciation on these was also included in the price. A representative of the Government recently stated that such tools become Government property whether paid for outright by the Government or absorbed into the price of the product and we would like to hear the opinions of the members on this question as such a ruling does not appear feasible.

Discharged Persons may be Trained on the Job in Accountancy

By V. N. Bruce, Assistant Superintendent, Vocational Training Department of Veterans Affairs

Many men on taking discharge from the services find themselves five or six years beyond the age at which younger men leaving high school enter upon the study and practice of accountancy. In many cases the men being discharged are married or have other responsibilities which make it virtually impossible for them to accept the salary normally offered young men starting in accountancy fresh from high school. In such cases, where the discharged person has the necessary requirements and aptitude for accountancy, the Department of Veterans Affairs is prepared to supplement the wages normally paid.

In a brief article it is impossible to cover all details, and in fact each person who applies for training is considered as an individual whose circumstances are to some extent different from those of every other person. Nevertheless, it is possible to outline the general policy under which district rehabilitation boards deal with training cases of this sort.

1. During the training period the person being trained is to be considered and treated as a regular employee who will normally be expected to continue in employment on completion of the training.

2. A definite training period is agreed upon before training commences. The length of the period of training depends in all cases upon the requirements of the individual. District rehabilitation boards cannot, however, in any case subsidize training beyond the period which the person has served in the armed forces.

3. The employer pays as salary whatever the man is worth at each stage of the training period, having regard to the normal salary paid under similar circumstances to persons who may not have had military service. The employer also pays an amount equal to that which the Department agrees to grant. These amounts are then refunded to the employer by the Department. As the employer's share increases with the man's experience, the Department's share decreases.

4. The maximum refunds which the Department can make are as follows:—

Single man	\$60.00 per month
Married man, no dependents	80.00 per month
Dependents' allowance:—	
For one child	12.00 per month
For second child	12.00 per month
For third child	10.00 per month
For each subsequent child (not in excess of three)	8.00 per month

No deductions are made by the Department for any salary which the employer may pay up to \$40.00 a month. Thus, to take an unlikely example, if the employer were to pay only \$20.00 a month, the Department

PLANNING FOR POST-WAR MARKETS

could pay the full grants as listed above, so that a single man would get \$20.00 plus \$60.00, or \$80.00 a month. If, however, the employer pays \$55.00 per month, the Department subtracts from the maximum grant any excess over \$40.00. Thus, in this case, a single man would have \$15.00 a month deducted from the normal grant of \$60.00, leaving him \$45.00 from the Department and \$55.00 from the employer. When the employer increases his salary \$10.00 a month, the Department reduces their grant by a similar sum. Thus, in effect, there is a ceiling of \$100.00 on the total of salary plus training grant for a single man, \$120.00 for a married man, etc.

5. Normally a person in training is not expected to have by way of salary plus refund more than 80% of the salary which he may be expected to obtain on completion of the subsidized training period. Thus, the ceiling of \$100.00 a month for a single man implies that the man will obtain a salary of $10/8 \times \$100$ or \$125 a month on completion of the subsidized training period.

If a discharged person should come to you to discuss training in accountancy, it would be well to be as specific as possible about the vocation, but to deal only in general terms with the financial arrangements which might be made. If the discharged person wishes to go through with his intention of studying accountancy, he should be referred to the nearest district rehabilitation board who will consider the case fully and make whatever arrangements may be necessary.

On the other hand, if you have a vacancy in your office which a discharged person might fill, you should get in touch with the supervisor of counselling of the nearest district rehabilitation board, and leave with him a statement of the type of person you need so that he could direct to you applicants suitable for such training. In this connection it might be as well to say that the Department does not feel that employers should take the attitude that they are doing the Department or the Government a favour in taking a discharged person into their service. The rehabilitation of discharged men and women is a national responsibility which can only be adequately met by co-operation of all concerned. We are sure that most employers do not need to be told that men and women now coming out of the armed forces have qualities which make them desirable employees.

Planning for Postwar Markets

An Address at the Annual Meeting Canadian Society of Cost Accountants
and Industrial Engineers

By Louis L. Lang, President Mutual Life Insurance Co.

How eagerly does industry await the day when it can again serve the people with the products of peace, instead of the government with the products of war!

And how strongly must industry prepare itself for the distribution of the greater quantities of peacetime goods that must be built and sold! Yes, greater quantities than before the war—for statisticians tell us the

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mere resumption of prewar volumes will not provide enough jobs nor sustain our ascending scale of living.

How fortunate we are that in addition to our heritage of engineering and production skill, we have highly developed the arts of informing people what they can buy, what the products of industry are, and what ownership of them means to the buyer—the widespread, convenient display of competitive goods for ease and freedom of choice—the alert and informed salesman who helps the customer understand what he is buying and sees that he is properly dissatisfied with being without it—the facilities for testing and comparing—the ability to buy on terms out of income—the organization of after-purchase service, and honest guarantees, free delivery or the option to carry home at a lower price—and, most important, the stimulation of dissatisfaction with what we have, and the ambition to possess more and better things.

These things are done by the Canadian system of distribution and done here and in the United States better than anywhere else in the world. The part distribution has played in employment and in building up our living standards is very great. The responsibility that will rest on distribution in obtaining the greater consumption of the products of industry is tremendous.

The engineering and manufacturing branches of many of our important industries face difficult reconversion problems. How about our distribution?

Can industry assume for purpose of distribution that an out-of-balance condition between supply and demand, postwar, is going to result in spontaneous, large consumption, or, on the other hand, must industry gear itself for a much greater distributive effort than ever before?

Many managers are serenely confident that the unspent savings will pour out in an avalanche of buying which will last for some time. How long? The guesses vary over a wide range. Even the most optimistic recognize the time will come when selling will again be hard—and when the company that has in the meantime strengthened its distribution to the utmost will fare much better than one that has assumed too long the continuation of easy selling. How many realize, I wonder, the need for increasing **over-all** consumption of goods, not just merely those one's own employees take; and the tremendous responsibility of distribution in increasing total consumption.

While many managers feel pretty sure it will be easy for quite a while to sell all they can make—is it safe to discount entirely, in many lines that people may wait for the glamorous new models that have been so touted; that they may hear about lower prices soon to come, and that has always been the most potent cause of buyers holding back;—that many people may be out of work long enough to cause others to hold on to their savings until they are sure of their own jobs or incomes; that re-employment in some industries may not be as rapid as is hoped because of restrictive price policies delaying or preventing reconversion.

We must not forget that this economy of ours moves or does not move pretty much as a whole, and that no one company or one industry is going to get along very fast, except in a condition of general progress.

It does seem to me that the safest attitude for all of us to take is that

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we must prepare to improve and intensify and advance distribution in all its phases—and do it promptly.

Certainly we must study our distribution plans as never before.

For most types of manufacture, the war has introduced disturbing influences which will make the study of markets, sales potentials and distribution methods far more difficult than ever before, but at the same time even more imperative. Industrial and population shifts; possible changes in consumption habits; possible changes in consumption habits; disintegration of selling organizations and loss of dealer contacts; developments in the field of transportation and communication; new materials, new technologies, and scientific discoveries; war product developments applicable to civilian uses—all these and many other factors are disruptive elements which will make it dangerous for manufacturers in many industries to proceed on the basis of prewar experience without careful study.

During this critical period of transition, when so very much depends upon an accurate knowledge of marketing facts and an accurate analysis of the problems involved in the sale and transfer of goods and services, it is doubly important that the matter be approached with a scientific attitude. There must be more dependence upon testing, measurement, methodical analysis; less upon hunches and intuition. And if any distinction can be drawn between the larger and smaller manufacturers in respect to the importance of this factual analytical approach, we must conclude that it is the smaller producer who can least afford to chart his course by guess. He simply cannot afford the high percentage of error that is certain to result, particularly under the disturbed and highly competitive conditions which may be expected in most industries in the immediate postwar period.

Management is therefore urged to give careful consideration to the need for a continuing critical study and evaluation of its present and potential markets and marketing operations, in order that its policies, methods and performance in both distribution and production may be governed by closely reasoned and carefully tested conclusions. Significant advantages will accrue to those concerns which have the foresight to provide the means for undertaking a continuing analysis and appraisal of their marketing policies and methods. In the fast-moving, highly competitive postwar era, the lack of a thorough knowledge of the factors in distribution is likely to spell disaster for the firm which has been negligent in developing an objective approach to its marketing problems.

In our studies of postwar distribution, we should stress the need for better and more scientific knowledge of distribution costs as a means of directing effort along more productive and profitable lines.

In the reshuffling incident to reconversion, many companies will be considering new fields of manufacturing. Here is where an analysis of the markets, the costs and the importance of know-how in distribution is quite important.

The matter of new products presents both great opportunity and plenty of pitfalls. It is tremendously important for all businesses, large and small, to be actively and vigorously on the lookout for new products, but they must be aware of the tendency to dissipate their energy and resources in attempting to enter new fields in which they will be at a competitive disadvantage.

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vantage. Someone has said that 85% of postwar planning constitutes how to get into the other man's business. We must never lose sight of the fact that the true test of the value of a new product or a new line is whether it will render a needed service. We must always keep before us the question as to whether the addition of a new item to our line will add something to the sum total of the service which is already available to the consuming public.

Before a company embarks upon a new product undertaking, it must first weigh very carefully both the advantages and the disadvantages of expanding the present line; and if it is decided to extend the line, an attempt should be made to exploit some special skill in distribution or management, or some kind of "know-how!" Otherwise, the company becomes merely an investment trust putting money into something the management knows nothing about.

It might be added that it will be highly important, particularly when the big flood of war production drops off, to stir up every possible artery going out from your present business and to exploit your present skills to the greatest possible degree. Stick to your own lines, yes, but use every bit of ingenuity you can to develop and broaden your lines.

There is no thought to discount the value and importance of basic research in the creating of entirely new products, provided they are directed towards filling a need. Technical and material progress will demand that industry shall exercise leadership in the development of new lines of business, but emphasis should be placed upon the necessity for careful consideration of all the factors involved in order to prevent failures.

We ought to try to create things at popular prices in our own product category which will be more attractive to the consumer than his dollar. The creation of attractive things at popular prices will enable us to make real progress toward providing more jobs. Of course, in my thinking, the more you know about a subject, the more you can do with it rather than to explore in other fields.

But whether we will be building and distributing new products or old, retaining of the sales force deserves particular attention.

Recent studies have indicated that fewer men are interested in entering or re-entering the selling profession. There is evidence that it will not be easy to recruit top-grade material for sales organizations. Rates of compensation for salesmen will very probably be higher. There will be need for a considerable reorientation of the psychology of present sales personnel as well as those who return to the field. All of these factors will place a heavy burden on sales training programs.

In discussing the new sales training programs, we should emphasize the need for greater familiarity with the business, its problems, objectives and methods, all of the things which help to give the salesman a feel of his business and a more thorough knowledge of his product lines and his competition.

In our sales training programs, we must lead away from the idea that our men are just order-takers and emphasize rather that it is a service they are performing. Get your salesmen to look at your wholesalers and retailers as a vehicle to get your product to the ultimate consumer. Make your

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salesmen feel that it is up to them to keep the vehicle in trim so that it will perform its job well. The taking of orders will come as a matter of course if you are successful in implanting this idea of service and of the importance of merchandising assistance to your distributive outlets.

I will tell you you are going to have to exercise a little caution with the returning servicemen. Men in this war went out as salesmen and will come back as salesmen, and it will be an awful shock when they start to work again after they have been in the army for a stretch. Their thinking is different. It will be tough getting back into harness. Industry should consider that. We should be careful because these fellows are going to criticize us very severely if we don't take the pains to be patient with them when they come back.

Just a little recognition is a great help. The returned serviceman has done his stuff. He wants recognition, and if you just do that for a couple of weeks, let the fellow know somebody is thinking about him, he will melt in pretty well.

I believe it calls for a second type of training for our salesmen. We must make merchandise authorities and merchandise counsellors out of these men. The best approach is, first to develop a program for the trade, whether you are dealing with wholesalers or retailers; secondly, to familiarize your salesmen with that program, develop material for them; and thirdly, to train your men in the distribution problems of their customers.

I would like to emphasize that in any attempt to deal with salesmen in postwar planning, we have three jobs to do. One is to train new men, and to retrain the men coming back. That will involve two phases of training. One is that our men in the field give the impression of the company, what it is, and the more they know about that company the better impression they will give and the better representation they will give us in the field as far as we are concerned.

Then we have to indoctrinate those people with the problems of the customers with whom they are dealing, whether these customers are wholesalers or retailers.

There must be methods of improving the effectiveness of salesmen—whether from the standpoint of your company getting a bigger slice of the market, or with the bigger objective of increasing the over-all consumption of goods.

Who among us that advertise do not look and hope for first greater effectiveness in increasing our sales and second greater efficiency in the use of the advertising dollar

Some of us foresee a rapid increase in the number of retail outlets, all eager for stocks and consequent building up of inventories which if not watched will back up and start a deflationary liquidation. (More afraid of deflation than inflation.) Better market planning and better control of distribution should minimize the danger of this for any company.

Whatever plans we make, the whole organization should be familiar with them—and as many as possible should participate in making them.

In no business, large or small, can the management presume that the entire organization understands what is in the mind of the chief executive of that business as to its objectives, unless some means is found to review

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these objectives step by step with all the key personnel, and to fix the sights of the entire staff upon a given plan of operation. There has been much talk about postwar planning, but you perceive, all too frequently, that it is done by a very tight little committee. It is not embracive enough and does not filter through far enough. The knowledge of postwar planning activities should go all the way down to the labour groups within the company, when the program has been developed, so that every one in the organization knows it is forward-looking and understands the outlines and objectives of its program. The forward drive of the company will be greatly augmented once the thinking of all its members has been focused in the given direction.

As has frequently been said, we have a demonstrated capacity to produce vastly in excess of prewar. The miracle of war production volume has been largely for one customer, and almost regardless of cost. We must soon get back to selling to millions of customers and at costs which will be paid voluntarily by people who do not have to buy unless they want to—except for absolute necessities. We must hit a pace of production and consumption, some say 25% to 50% higher than prewar.

We must sell—sell—sell. Constant—sustained selling must keep money flowing from buyer to producer. The urge to produce more in order to buy more must be stimulated by the forces of distribution.

We must run this race more hobbled by governmental regulation and with higher taxes than before the war. We must run it—and win it.

Let us not underestimate the task ahead of distribution. Let's not postpone our plans for a more effective distribution too long.

LET'S GET ORGANIZED—GET WISE—GET TEAMWORK—AND GET BUSY!

The Installation of a Standard Cost and Flexible Budget System

Address Delivered Before the Vancouver Chapter,

By N. C. Hartley, R.I.A., Powell River Co.

It should be recognised that in a short address of this nature, the magnitude of the subject is such that all the minute details which appear in a practical installation cannot be discussed. I have, therefore, been compelled to restrict my remarks to the more general procedure and the broad principles, still endeavouring to be as explicit as possible.

Briefly, the object is to establish the expenses and unit costs at an established and desirable volume of activity, and also to establish formulae which will show what the expenses and unit costs should be at different volumes of activity. The value of such information as a measure of control and of its importance and significance to the Sales Department will be recognised.

In recent years standard cost systems have become increasingly popular in many types of industries. There have been some instances where this

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adoption has not given the fullest satisfaction, and some accountants hold the opinion that this method of cost accounting and control is not suitable to all industries.

It is claimed that the incorporation of the flexible budget with standard costs has overcome many of the former objections. The following system would be suitable for the process type of industry, such as pulp and paper mills, textile mills, etc., that is, the same broad principles would apply to all, although the detail and problems would be peculiar within each plant. As standard cost systems are employed in other types of industries it is possible that the feature of the flexible budget could be incorporated therein also. The installation is a long task with months and months of hard work, and no tangible evidence of actual work done. One may become impatient and discouraged with the progress, but never find the work uninteresting. A great amount of original thinking is required, and the investigations of plant conditions and close consultation with the superintendents will provide a sound general knowledge of the plant structure which ordinarily would take many years to acquire.

The installation will be more readily accomplished where the existing accounting set-up has been planned on well cut lines, with reliable information of expenses and productions available for a few years back and for each cost centre. Before discussing the installation a brief description of the aims of this method will not be amiss.

Reference to text books will show many interpretations of standard costs. In this particular case they represent an estimation of what costs should be for a normal, average production, during normal average conditions. The conditions must be practical, that is, possible of being attained, but excluding unwarranted inefficiencies in production or expense. A volume of activity is adopted as representative of a long term average monthly performance, which will be known as the standard activity.

The behaviour of expense in relation to the volume of activity is studied and formulas discovered with use of which the expense at varying volumes and conditions can be budgeted. The amount of expense which applies at the adopted standard activity gives the standard expense from which the standard unit cost is calculated. These standards remain constant so long as no major change in expense or manufacturing condition has occurred to upset the long term normal average, such as wage adjustments or new processing methods of a more or less permanent nature. When such adjustments become necessary they can be accomplished with little effort compared with the initial installation.

As the behaviour of expense is studied at all probable ranges of activity and programming, subsidiary standards are set up for all probable conditions, and which would be applied to the actual conditions in any one month. These subsidiary standards are usually referred to as the "current allowances", and in their capacity as intermediaries they indicate why the "master" standard cannot be met under current conditions, and they also serve as the yard stick against which the actual expenses can be measured. The current allowances permit the flexible element in this system to function. As mentioned previously the plant will probably already be segregated into suitable cost centres, but minor changes of a finer nature may be necessary.

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Standard Activity:—

As already stated the object is to establish a standard in all production cost centres which will represent a long term average with the plant "in balance". This standard production has to bear the expense of overhead, so, if it is set too high and the actual activity is consistently lower, the overhead will not be covered in costs. For instance if the standard overhead distributed to one department is \$3,000.00 and the standard activity is set at 3,000 units, then the standard overhead cleared in costs will be at the rate of \$1.00 per unit, now, if the actual activity only averages 2,750 units, the overhead cleared in cost will be 2,750 units times the standard unit cost of \$1.00 or \$2,750.00 which is \$250.00 below the standard expense. This represents an unfavourable variance due to volume. The converse would follow where the standard activity was set too low, though it can have far less serious consequences than the former.

Eighty per cent. of full capacity output is commonly considered as a reasonable and long term average volume, and this will be adopted as the basis of the standard activity in this treatise. However, it will not be known as the 80% activity but as the 100% standard activity.

The management must decide how this activity should be handled, that is what work layout or programme would be most reasonable, as it can be achieved in several ways, each with different costs resulting. A type of business and the policy of the management will result in a decision being made from one of the following methods:—

"A" 80% of machinery working all available time at normal machine efficiency.

"B" 100% of machinery working 80% available time at normal machine efficiency.

"C" 100% of machinery working all available time at 80% normal machine efficiency.

Perhaps in most instances "B" would be chosen, that is all machinery operating at normal machine efficiency for 80% of available time. A reasonable basis would be to consider an average of five workdays per week as opposed to a normal six day week, which would give 21.75 work days per average month. The number of units in each department produced in 21¾ days must now be determined. These will become the standard activities of each department, and they will be expressed either in the physical units or the number of machine hours in 21¾ days. Where a department produces a variety of similar products from the same machines, and where each product may have, by its peculiarity a different process time, that is a different rate of production per unit for each product, then the standard activity will be based on the machine hour method. This means that if the recognised work day is 3 shifts of 8 hours or 24 hours per day, the standard activity would be 24 hours times 21¾ days (522 hours) times the number of machines. In this category would be the paper mill and the weaving mill.

The standard activity of the preceding departments may be required in physical units of product. In the case of a paper mill the quantity of groundwood and sulphite slush consumed by the paper machines would be listed together with the corresponding days operated, and the quantities

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of slush consumed converted to the equivalent production in $21\frac{3}{4}$ days and totalled for all machines would give the standard activity of the groundwood and sulphite mills. Production statistics would show the normal quantity in feet of wood required per ton of groundwood slush and per ton of sulphite slush, and multiplying these by the standard quantity of groundwood and sulphite would give the total footage through the barkermill, thus establishing the barkermill standard activity. Other process type industries would apply similar principles in establishing the departmental standard activities. The important factor is to commence with the final department of manufacture, find the normal quantity of raw material consumed therein in the standard number of days or hours, and then work backwards through each department to the primary one.

Where the plant produces its own steam and electrical power the quantities consumed by each cost centre at their standard activities has to be found, in order to set the standard activity of the steam and power plants. If electrical power is purchased from outside sources, it will still be necessary to establish the standard usages. Unless meters are used in each department it is almost impossible to control the departmental consumptions, and any attempt to set reliable standards would be little better than an estimate. Where reliable monthly records of departmental consumptions are available these are plotted on graph paper against the respective productions or machine hours and the controlling factor is found. The results will indicate that the consumption is governed by one of the following factors:—

1. It varies in direct proportion with departmental activity.
2. It is fixed per month regardless of activity.
3. It varies with season, being fixed according to the particular month.
4. It varies with season and with activity.
5. It is fixed per day operated, i.e. it varies with days worked.

A formula would be developed for each department showing the consumption at standard activity, and also at all probable activities and conditions. The total of the consumptions at the standard activity of every cost centre will give the standard activity for the steam plant and the power plant.

At this stage the standard activities of each department have been set, and the next step is to establish the corresponding standard expense and unit cost. Before proceeding, a brief discussion on expense classification will be advantageous.

One of the basic principles of the standard cost and flexible budget system is that expenses, complex though they appear, can be classified into three types, namely:—

1. Variable expense.
2. Fixed expense.
3. Mixed expense.

Variable Expense.

This requires little explanation since it fluctuates in direct proportion with the volume of activity.

Fixed Expenses.

These require a little more explanation. They comprise of those

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expenses which must be regarded as constant at all volumes within the probable range of activity. They may behave quite differently at volumes outside of the probable range, say at zero or very low activities, but such conditions mean that the actual expense is a constant amount each month, as many in this class do fluctuate from month to month, but over a long term they can be represented by a fixed average.

Mixed Expenses.

These fluctuate in some measure with the volume of activity, but not in direct proportion. They are a combination of the variable and the fixed types. By plotting the past experience of any one expense item against the respective production the behaviour of the expense may reveal this variable and fixed element. The components of mixed costs can often be solved with the aid of algebra also. Of the three types of expense these are the most troublesome. It will be noticed that as mixed costs, sometimes referred to as curved costs, are a mixture of variable and fixed expense there are really only two types of expenses, namely variable and fixed. Once the expenses of a business have been segregated into these two types there is open a field of calculations and formulas relating profit and volume, but this is beyond the scope of this address. It might be stressed once more that this pattern of expense classification is more evident over a long period than in any one month or short period. It should also be realised that in war-time conditions the pattern of expenses may become partially destroyed by heavy spending in several directions. If standards are being developed during such a period too much weight should not be given to the present trend if long term standards are being set.

Where several years experience are available, the plotting of expense against production gives a clearer picture when the average monthly expense and the average monthly production for each year is plotted, rather than the individual months, as the latter are obviously subject to wide fluctuations and freaks. It is also advisable to plot the experience of periods of high and low activities whenever possible, as these aid in determining the angle of the cost line. Care must be taken that the expenses are comparable year by year, that is, that wage rates, labour crews, factory layout, etc., which would affect any particular expense, are comparable within the reviewed period. Where there has been a change in these conditions an adjustment to the present basis must be made prior to the plotting.

Every item of expense in each cost centre of the business will be studied individually, and will be classified into one of the three expense groups, using the above plotting methods and obtaining the formulas at standard activity and at other probable levels. This information will be recorded on individual "budget sheets", and summarised by cost centres. In some instances it will be necessary to plot the expenses and production figures to determine the formula. Obviously where piece rate work is the basis of direct labour the expense is variable with production, and the amount at any activity is readily calculated. Where fixed labour crews at known hourly rates operate a department, or a portion of it, the daily crew cost times the standard number of days in an average month ($21\frac{3}{4}$ days) will give the standard expense of that particular labour.

The steam and power expense for each cost centre cannot as yet be ascer-

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tained, as the price of these commodities has not been determined. However, the budget sheets in each centre can be prepared showing the quantities consumed, which later will be multiplied by the price to give the standard expense.

Every item of expense in the burden divisions will be set down on budget sheets in a similar manner, that is all expenses save those for steam and power chargeable to the burden divisions. The expenses for operating the steam and power plants would also be budgeted as above, and the information recorded on the budget sheets. The standard fuel expense for the steam plant boilers will be determined on the basis of a normally obtainable and desirable mixture of fuels, calculated to produce the standard quantity of steam at normal boiler efficiencies. Fixed standard prices and efficiencies would be given for these fuels. The engineering department and steam plant superintendent would supply details of the standard mixture and efficiencies.

There is now a tricky problem of solving for two unknowns. Steam and power have to be priced including a portion of the burden distribution, and charged to each consuming cost centre including the burden divisions, and the burden has to be completed by including the steam and power expense in the burden divisions, and then distributed to all cost production centres including the steam and power plants. In fewer words steam and power costs cannot be determined without the inclusion of a portion of burden, and burden cannot be known without the inclusion of steam and power. A further complication will occur if power is used in electric boilers in the steam plant. Anyone unfamiliar with algebra will find this a difficult problem, but it can be solved by simultaneous equations and thereby permit the final pricing of steam and power, and also the total standard expenses of each burden division.

The standard burden expense is distributed to each production cost centre, taking each division of the burden and distributing it independently according to the most suitable method or basis, that is not using one form only to distribute the total burden. The distribution would be made on a work sheet, summarised by cost centre, and the total recorded on the summary budget sheet of each centre.

If the budget summary sheet of the first department can be pictured it will record the number of units produced at standard activity and the corresponding details of expenses, total expense excluding burden, the portion of burden, and the total expense including burden. Unit costs would be shown along side each expense and the total. The total standard cost of this department would be transferred to the subsequent department as the material expense entering therein and so on through each department. It will be realized that the standard condition considers the production is balanced throughout the plant, and the standard unit costs are developed from these productions, but in actual circumstances differences between the production in one department and the consumption of the material by the next department would be taken care of through inventory accounts. In the departments where the machine hour method was used to determine the activity the standard cost for labour and expense only is first obtained, that is excluding materials, as obviously the standard expense of materials

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will depend on the mixture of products being manufactured, each with a different rate of production and capacity for consuming the material from the previous departments.

The standards are now set for all cost centres. Let us now examine how they can be utilized.

Forms would be drawn up for each cost centre, on which would be recorded the monthly productions, the standard cost of this production, the actual expense in total and by item, the current allowance (subsidiary standard) for each item of expense, and an analysis of "variances" from standards. In any one month the current allowances or subsidiary standards would be calculated according to the formulas for current conditions, as developed when expense behaviour was studied, details of which appear on the budget sheets of each expense item. The difference between the master standard and the current allowance will be due to a variety of variances which cannot be avoided, and are considered as uncontrollable variances. The difference between the current allowance and the actual expense is considered as the controllable variance. It is possible that there are legitimate reasons for these variances, but nevertheless they represent variations from the budgeted or standard expense. In some instances the "year to date" variance must be watched more closely than the current month.

The most frequently used variances and the reason of their being are described below.

Volume Variance.

When the volume of activity is greater or less than the standard the product will absorb a greater or less amount of fixed expenses than the standard fixed amount. The difference between the fixed standard and the absorbed amount is known as a volume variance.

Example of volume variance:

The standard activity of a department is 4350 units per month.
The fixed standard expense in this dept. is \$4350, or \$1 per unit.
In the month of January the activity is 4000 units,
therefore the standard cost for these expenses alone is 4000 units
times \$1, equals \$4000,
but the fixed standard expense is \$4350,
therefore the unfavourable volume variance is \$ 350,
being the amount under-absorbed.

Volume variance is perhaps the most important and the most obvious variance developed from this system.

Rate of Production Variance.

This is in effect a volume variance but it is not created by the effect of the monthly volume on the fixed monthly expense, but by the average daily volume on a fixed daily expense. For instance, if the controlling factor of labour expense in a particular department is the number of days worked, that is, there is a fixed daily crew cost at all probable levels of activity, then, the standard cost is obtained by taking the daily crew cost times the average number of workdays in an average month ($21\frac{3}{4}$ days). The standard cost of labour in any one month will be the number of units produced times the standard unit cost, while the current allowance will be

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determined from the number of days worked times the standard daily crew cost. The difference between these two standards represents the variance from standard due to the average daily production, that is whereas the daily labour cost is the same the average daily production is not.

Also, where the standard unit cost is based on the machine hour the standard cost of labour and expense in any one month will be calculated from the hours required for producing the actual products of the month, using established standard rates of production for each product, that is the "allowed hours" would be calculated, whereas the current allowance would be calculated on the actual hours taken. The difference between the allowed hours and the actual hours times the standard unit cost per machine hour will represent the rate of production variance.

Example of Rate of Production Variance:—

Standard activity is 4350 tons.

Standard labour expense is \$100 per day times $21\frac{3}{4}$ days equals \$2175 or \$0.50 per ton.

Standard rate of production is 4350 tons divided by $21\frac{3}{4}$ days or 200 tons per average day.

In the month of January 4000 tons are produced in 25 days.

Therefore standard labour cost is 4000 tons times \$0.50 or \$2000, the Current Allowance is \$100 times 25 days, or\$2500, and the unfavourable rate of production variance is\$ 500 Check.

There is a drop from 200 to 160 tons per average day, or 40 tons daily. Total drop in 25 days is 40 times 25 equals 1000 tons, which at the standard cost of \$0.50 equals \$500.

Mixture Variance.

Where separate standard costs are developed for more than one department or machine within a department, an average or combined standard cost must be obtained. This average cost assumes a fixed proportion of the total product will be maintained from each department or machine. Any change in this proportion will create a new average cost which is measured against the standard average cost, and the difference is known as the mixture variance.

Example of Mixture Variance:—

	Std. Activity	Std. Expense	Std. Unit Cost
Dept. A.1.	1000 units	\$1000	\$1.00.
Dept. A.2.	4000 units	\$4400	\$1.10.
Combined standard	5000 units	\$5400	\$1.08.

In the month of January the respective activities and the individual standards are as follows:—

Dept. A.1.	1200 units	\$1200	\$1.00.
Dept. A.2.	3000 units	\$3300	\$1.10.
Total	4200 units	\$4500	\$1.071.
Combined standard	4200 units	\$4536	\$1.08.
Mixture variance (favourable)		36	

Seasonal Variance.

Where the standard cost is the average of twelve monthly standards over the year, in any one month the difference between the current month's

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standard and the average monthly standard is known as the seasonal variance. In most cases these variances would balance out over the year.

Material Price Variance.

Raw materials, dyestuffs, chemicals and similar purchased materials are given standard prices. The difference between the standard price and the actual purchase price is known as the material price variance.

The manner of handling the burden is simple. The forms used for each burden division show the standard expense, actual expense, and the controllable variance for each item. The current allowance is usually the same as the standard, the difference if any, being due to elements such as season. Whereas the standard burden is a fixed monthly amount the burden cleared in costs is the product of each department's activity in units times the standard unit cost of burden for the respective department. The difference between the total standard burden and the burden cleared in costs will be due to under, or over absorption, in other words, due to volume. It will readily be understood that at activities higher than the standard the burden cleared in costs will exceed the fixed standard burden, thereby creating a favourable volume variance, and conversely when the overall activity is less than the standard. The burden is therefore treated as any other fixed expense. The actual burden is shown on the monthly forms along side of the standard expense of each item, and the difference is shown as a controllable variance.

A summary of variances in each cost centre is prepared for the chief executive, whilst departmental superintendents and the manager are supplied with copies of the statements of their respective departments. Information of any large expense would be given to the superintendent to aid him in making a report on outstanding large variances. It should be noted that the superintendents are closely consulted when the standards are being set, as their experience and advice is of great value towards the setting of satisfactory standards. Their co-operation and assistance tends to stimulate interest and understanding of the system.

If it is intended to place standard costs on the general books of account the bulk of the information is already at hand, but it would be advisable to work the system for at least one complete year simply as a means of cost control, and to enable everyone concerned to become thoroughly acquainted with the radical change in methods. Chaos may result if a change over is made before the system is completely understood. There is no absolute necessity to have the system on the books, though there is possibly a disadvantage and wastage in having two sets of accounts or cost records in operation. As a means of control the standard costs as prescribed by this system provide a yardstick with which to measure the actual performance. The reasons for variance will be investigated and the effects on costs by certain conditions will be brought to light which might possibly remain obscure by other accounting methods. Superintendents are supplied with cost figures which give a truer picture of their own department, since standard prices are used for charging materials, steam and power, and variances will deal solely with quantities consumed. Each department stands on its own merits and receives no benefits and no penalties for the performance of other departments, with the possible exception of handicaps

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caused by having to produce from material poorly processed by preceding departments.

So far no reference has been made to depreciation. No true costs can be produced without including this expense, and where there is a diversity and intermingling of products this expense should be apportioned to every department. Depreciation as written off the plant value is often purely a financial operation, and is not necessarily a true expense in the light of costing. The question arises, should a fully depreciated machine which is a profitable producing unit still carry its normal rate of depreciation, or an estimated reduced rate, debiting cost of production and crediting unearned surplus with the amount? Or should the book write off only be charged to costs, even when this is known to be excessive? There are many angles to be considered, and convincing arguments supporting either view can be made. The executives should indicate how this item should be handled, so as to enable the cost accountant to include the necessary fixed expense within the burden.

New Jobs for Tomorrow's Office

By Phil Glanzer, B.Com., F.A.S.A., A.M.I.E.T.

For many an office manager there may be little reconversion and no peace at all. The paper blitz seems likely not only to continue for years but also keep on expanding.

If he is the general "factotum" in a small to medium-sized establishment he may have to divide authority to preserve sanity—unless he has already done so. Nor will his days be restful if he is a specialist in a larger industrial, commercial, financial or Government establishment.

If the payroll is his baby he has long ago forgotten the old days of the humble pay foreman, long ago has had to become or to engage a combined accountant, actuary and soothsayer in order to meet the requirements of to-day's close relationship of business and government and the new outlook on employee relations. For these new adjuncts of war, and perhaps of social progress as well, have brought in train many heavy tasks which were comparatively rare experiences before—wage deductions involving a maze of calculations and new recording systems, new time calculations in response to legislation governing limitation of hours and vacations with pay.

Have to Be Experts

If hiring and firing is the manager's specialty he may remember nostalgically the simpler ways of the prewar employment office. To-day he and his key men have to be experts in psychology and salesmanship, must keep abreast of new findings in personnel selection and training and, in their spare time, study recent refinements in the art of bringing the boss and worker together.

Whatever his concern—be it production, purchasing, stockroom, shipping, general accounting or the payroll and personnel departments—the office manager of the "forties" has taken on new omniscience and a burden

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that would stagger lesser men. And his entire staff has shared in the change—even the least of his assistants has become a specialist, in charge severally of the many new branches of recording and the intricate machines and systems which have helped build the whole ponderous economic organization.

Transition No Picnic

Even though World War II is only half finished, it means new and prodigious amounts of "bookkeeping". Controls, allocations and permissions can hardly diminish in paper work while becoming more selective.

In the last war, every man and woman downed weapons and tools when the bells rang. Ships came home from the seas and whole contingents of youth went back to the land or the work-bench. This time, only some of them will be released at first and may be demobilized individually instead of in units. That undoubtedly would mean a new paper blitz of forms, records and analyses to determine which airman can take off into civil aviation and which must remain to finish the war, which soldier may enroll for a job at home and which must stay on the job abroad, which industry is to be allowed to turn to gadgets and which must stick to guns.

No Office Respite

It doesn't look as if office staffs in business and Government soon again will move in the old ways. Even if, as is predicted, Canada's munitions program is cut in half a month or two hence, with the United States following suit, there remains the production, organization, and finance for the all-out attack against the Jap in his homeland, China, Burma, the Philippines and the Dutch East Indies.

That no doubt will prove to be a bigger job and one more taxing in the factory, home and field than many now expect. And while we are playing whatever role may be assigned in those final battles, we'll also be meeting our commitments for European rehabilitation and feeling again for the reconversion gear lever at the same time.

If all this doesn't submerge office staffs and their mechanical aids there will be the final blizzard of paper within which we plan to mount our home attack on economic stability, social inequity and bad housing.

New Jobs to Stay

It all adds up to continued and even expanding records and calculations as a major item in business overhead. This war's meeting of business and Government—to control production, supply, prices, wages, foreign exchange, imports and exports, to finance as much of the war's costs as possible out of taxes and savings and to bring new order to worker-management relations—undoubtedly will carry over at least in part into the peace.

For example, the chartered banks are not likely to be relieved at once of many of their special wartime services. Their Prices Board relationship may continue even though particular tasks change.

Accounting in Industry

But the average substantial industrial and commercial establishment affords examples perhaps better illustrating the trend to bulk and complexity in office operations.

The Munitions plant is a case in point. Manufacturers doubtless are counting permanent gains from stock, price and time accounting methods

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imposed by the government for letting, renegotiating or terminating of production contracts. In many cases management may feel it has learned a lot about close control of processes and of costs since the onset of the priorities headache, labour and wage troubles and war contract red tape.

When the government issued its manual of procedure on termination of contracts, warned that manufacturers who had failed to set up adequate cost records might encounter delay in claiming settlement or might suffer settlement on a basis of the government's own calculations. Knottiest problems of settlement obviously arise in cases of cancellation prior to completion. And, for the prime contractor, there is the major complication of sub-contractor's claims. Thus in the whole setup is seen an amazing volume and variety of paper work, from contracts themselves through inventory, cost and time records, to the documented applications for settlement that close the war production book.

Production management collectively must have added considerably to its knowledge of cost accounting. In the past five years, purchasing and processing have been on a maximum scale and the urgent demand for speed has uncovered some surprising short cuts. Innovations and experimentation which no peace schedules or budgets could have supported, have permanently changed production patterns in many lines.

And to observe, record and analyze the benefits of these new methods, to control cost within the narrow margins imposed by effective mass production, to increase man-hour output and to schedule interdepartment and intermachine function, will be an even bigger task for industry's executive brains, business machines and paper when civilian goods once more are paramount.

Payroll Burden Doubled

Payroll and personnel organizations in every kind of business establishment have undergone far-reaching change and enlargement since Hitler's first mis-step to the East.

The war of the forms has raged far beyond the confines of factories. Insurance companies and department stores have had to add to calculations and records which were already at least as complex and onerous as those of the manufacturing world. Theatre, gas station and store chains have been compelled to expand their own complicated accounting and control systems and so have transportation systems, great hospitals and most other cogs in our massive commercial and institutional machine. Price, trade and labour controls for war have burdened all about equally.

How much of the new payroll procedure will stick?

We find, among payroll managers, little doubt that many of the new burdens of the pay office are permanent; that office staffs will have to keep right on into the peace with the exhaustive daily entries and calculations necessitated by deductions, vacation credits and the like.

When the final installment on the final Victory Bond is deducted and payments on account of war savings are a thing of the past, their place may have been taken by group savings plans, Christmas and charity fund deductions. Income tax doubtless still will be deducted in large part at the source, the unemployment insurance levy will go on as at present and

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there may be besides, group life and accident insurance, pensions and annuity plans.

Adding still more to the fury of payroll office activity these days and in those to come are the copious recording and the continuous study necessary to keep up with labour code regulations and union agreements. There is, for example, the comparatively new practice of deducting union dues at the source. Legislation limiting hours of labour calls for individual, cumulative time records while that providing for paid vacations is another example of how changing labour relations are costing payroll officials many a fretful hour, especially in seasonal industries or broken time operations like construction.

"Personnel" is another new giant among the offices of the nation's business and here too are ramifications born of war which appear likely to continue into the peace.

Besides the paramount job of selecting and training workers there are a hundred subsidiary and morale-building chores which might come under the general heading of "service and relations."

Transportation schemes—company buses, share-the-car transit systems (in order to get more tires and gas)—are helping workers to get to war work to-day, may be found worthwhile as a permanent fixture.

Large-scale recording in many cases has been necessary to keep track of employees overseas, their advancing ages, rank, capacities, trade training, etc., combined with old records of their pre-war performance, promise and seniority. Records of this degree of intimacy may be found of permanent value in observing workers as candidates for relocation or promotion. In great mercantile establishments equally with manufacturing plants there is growing use for individual records covering employee background, skill and employment history.

These are some of the newer trimmings; the big personnel jobs are of course selection and training.

Selection has been brought to a fine art by this war's armed services and the speed and thoroughness with which business and industry have been borrowing systems in this field has assured them a permanent place.

In all, management's job has grown mightily and centred increasingly around scientific control systems which rely on capacity and efficiency of office personnel. As the war in Europe is over, the battle of costs, post-war markets and stable employment draws to a head. Direct profits won't be made in the office but they will be conserved there and the new office jobs, and new methods and machines for doing old office jobs better, undoubtedly will help business to discharge increased responsibilities as Government controls are relaxed.

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